

Top Secret

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NATIONAL INTELLIGENCE DAILY CABLE

 Friday December 17, 1976 CI NIDC 76-294C

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National Intelligence Daily Cable for December 18, 1976.

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The NID Cable is for the purpose of informing
senior US officials.

OPEC: Price Compromise Reached	Page 1
IRAQ-SYRIA: Military Moves	Page 3
CHINA: Personnel Changes	Page 4
USSR-OPEC: Tass Sympathetic	Page 5

25X1

MBFR: Negotiations	Page 8
FRANCE: Government Challenge	Page 9
POLAND: Domestic Critics	Page 10

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OPEC: Price Compromise Reached

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[redacted] The oil ministers of the Organization of Petroleum Exporting Countries at their meeting in Doha were unable to agree to a single percentage on which to base an oil price hike effective January 1. Saudi Arabia and the United Arab Emirates reportedly will confine the price rise on their crude oil to 5 percent. The other eleven OPEC members agreed to raise prices by 10 percent for six months, and consider another price hike in mid-1977.

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[redacted] The agreement--an interim arrangement to prevent a split in the oil cartel--evidently was adopted as a last resort once it became apparent that Riyadh and Abu Dhabi were not prepared to compromise with other OPEC members.

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[redacted] The divergence on pricing probably amounts to a test of wills that can be decided only by the market. If the Saudis' are insistent on a 5-percent increase for the cartel as a whole, they can bring on stream more than 2 million barrels per day in underutilized Saudi productive capacity in an effort to depress the market of the other producers; this would make it extremely difficult for some of the others to maintain a 10-percent increase.

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[redacted] In any case, we expect some softening of demand in early 1977 as companies draw down excess stocks built up in anticipation of this price increase. This could reinforce the Saudi position. We expect the next few weeks to be a period of moderate instability for the cartel.

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[redacted] The price position of Saudi Arabia coming into the OPEC ministers meeting and the subsequent walk-out by Saudi Oil Minister Yamani were a culmination of Saudi diplomatic efforts during the past two weeks.

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[redacted] Yamani flew home on Thursday when it became apparent that a deadlock had developed on prices. He then returned to Doha, evidently with instructions from his government.

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[redacted] These Saudi moves suggested to the other OPEC representatives that not much room existed for amicably achieving a sizable price increase immediately. A stalemate at Doha would have played into the hands of the Saudis and stretched out the current price freeze.

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IRAQ-SYRIA: Military Moves

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[redacted] Iraq is persisting in its efforts to weaken the regime of Syrian President Asad.

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[redacted] Since the entry of Syrian regular troops in force into Lebanon in June, Iraq has tried to undercut Syria's effort to impose a settlement on the warring factions in Lebanon. Iraq infiltrated some 4,000 troops and Baath Party militiamen into Lebanon to support leftist and Palestinian forces against the Syrian army and tried to deter further Syrian military intervention by massing forces near the Syrian border.

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[redacted] We doubt Iraq's ability to form a credible anti-Syrian opposition front with the dissident exiles. A serious plot to bring down Asad would require the collaboration of the Syrian army, but Asad has thus far managed to curb dissident officers and appears to retain the loyalty of key commanders. In view of Baghdad's unrelenting antagonism toward Damascus, however, Iraq will continue to assign high priority to toppling Asad from power, no matter how slim the chances for success.

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[redacted] //Parallel with its effort to create a Syrian opposition front, Iraq is using terror and sabotage to create disturbances in Syria.

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[redacted] [redacted] Syria may already have retaliated in kind to discourage further Iraqi-instigated terrorist operations in Syria. Baghdad Radio charged that the explosion on Tuesday at Baghdad

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25X1 airport, which killed three persons and wounded a number of others, was the work of the Syrian regime

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CHINA: Personnel Changes

25X1 Major personnel changes are in the offing in China's Ministry of Foreign Affairs. Since the purge in early October of four Politburo members and the appointment this month of Huang Hua as minister, at least 19 Chinese ambassadors have left or have been scheduled to leave their overseas posts, many of them permanently.

25X1 While no decisions have yet been announced, speculation among Chinese diplomats abroad centers on prospective reassignment of two senior diplomats to posts in New York, Washington, or Moscow.

25X1 Ambassador to Japan Chen Chu is apparently slated to become China's permanent representative to the UN. Chen served in the UN as a deputy permanent representative under Huang Hua before going to Tokyo in 1973.

25X1 Chen seems well suited to the assignment, which will give him ample opportunity to use his experience in dealing with the USSR. He had been head of the Soviet and East European affairs department of the Ministry of Foreign Affairs and a minister to the Chinese embassy in Moscow in the late 1950s.

25X1 The other diplomat who reportedly will be transferred to a key post abroad is Ambassador to Canada Chang Wen-chin. Chang's years of intimate involvement in developing Sino-US relations as a Ministry of Foreign Affairs official and aide to Chou En-lai make him a fitting candidate to succeed Huang Chen, who has headed the liaison office in Washington since it opened in 1973 and could be due for reassignment.

25X1 [redacted] An alternative but less likely possibility is that Chang Wen-chin will go to the UN [redacted] 25X1
 25X1 [redacted] and Chen Chu will return to Moscow.

25X1 [redacted] In either case, the appointments of Chang and Chen to posts dealing with Sino-US and Sino-Soviet relations would not signal changes in Chinese policy toward either Washington or Moscow. [redacted]

USSR-OPEC: Tass Sympathetic

25X1 [redacted] Soviet media treatment of the meeting of the Organization of Petroleum Exporting Countries in Qatar has been sympathetic to the call for a price increase for oil.

25X1 [redacted] Tass wire service transmissions on Wednesday noted that crude oil prices have not changed for more than a year and that the real income of OPEC countries has dropped because of the effects of inflation in the capitalist countries. Tass accused the US of putting pressure on the OPEC countries to prevent a decision on a price increase.

25X1 [redacted] Soviet radio broadcasts in Arabic have cited the "progressive" policies of such Soviet clients as Algeria, Iraq, and Libya to justify an increase. The Soviets accused Saudi Arabia, which called for a six-month freeze in oil prices, of working with the "imperialist forces," particularly the US.

25X1 [redacted] Higher oil prices will be a mixed blessing for the Soviets. On one hand, Soviet hard-currency earnings will rise because of the higher prices Moscow will be able to charge its European oil customers. There were reports that the Soviets were already holding back on new oil delivery contracts with some East European countries until a decision was reached in Qatar.

25X1 [redacted] On the other hand, the Soviets will be hurt by higher Arab oil prices, although Soviet purchases from the OPEC countries are relatively small. The Soviet trade balance will also feel the effects of any economic downturn in the West caused by an increase in world oil prices. [redacted] 25X1

Next 1 Page(s) In Document Exempt

MBFR: Negotiations

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[redacted] //The Western side at the force reduction talks in Vienna presented updated data on Western forces Wednesday, having reached an agreement with the French on exclusion of their forces from new Western figures.//

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[redacted] //Eastern representatives declined formal comment on the move until they have had an opportunity to study the data, but noted that the West's figures are at variance with Eastern estimates and do not include all Western forces in the reduction area.//

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[redacted] //The East, which presented figures on its forces for the first time last June, has been insisting on updated Western figures as a prerequisite for entering into detailed discussions of the existing balance of forces in Europe.//

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[redacted] //The present negotiating round ended yesterday; talks will resume in late January. [redacted]

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FRANCE: Government Challenge

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[redacted] French Prime Minister Barre seems determined to resist labor's demands for wage increases in 1977. He has said that these increases would seriously undermine the government's efforts to control inflation.

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[redacted] Barre reportedly hopes to set a precedent for private-sector wage negotiations between labor and management by taking a hard line with public-sector unions in contract negotiations early next year. In the last few years, the government has set a bad example for private sector employers by granting wage increases of over 15 percent to public employees. The public-sector negotiations will probably be delayed until March or April, when the government hopes the rate of inflation will have visibly declined.

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[redacted] Barre has said wage restraint in 1977 is essential to improve corporate profitability--which has not fully recovered from the recession--and thereby boost the still lagging rate of private investment. In effect, one goal of Barre's austerity program is a shift from consumption to investment by temporarily halting the usual rapid increase in real wages.

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[redacted] When Barre announced his austerity program in September, he said wages should be allowed to increase next year only enough to offset inflation, which he anticipated at around 6.5 percent. Wages have been a key inflationary factor in recent years, rising at a rate of 15 to 20 percent annually. If prices should rise more than 6.5 percent in 1977, the government presumably would authorize additional compensating wage increases during the year.

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[redacted] Barre's stance negates a clause added five years ago to some of the collective bargaining agreements in the public sector. That clause, in mining, gas, and electricity workers' contracts, guaranteed an automatic minimum 2 percent increase in real wages each year unless either side abrogated the agreements.

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[redacted] In his recent book, President Giscard cited those collective bargaining agreements as a model for labor-management relations in the "advanced liberal society" he hopes to

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create in France. Consequently, the government may indicate that it hopes to suspend the agreements only for 1977. Paris might also try to mollify the unions by offering a special bonus to workers, to be paid next year if the wage-price guidelines are adhered to.

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[redacted] Barre's intention will provoke many confrontations between the union and employers, both public and private, and between the government and left opposition parties. The result may well be a compromise economic situation that would favor neither side in the upcoming elections. The left would lack a clear target to campaign against, but at the same time the governing parties would be denied the clear economic success that could revive their chances at the polls.

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[redacted] Labor leaders have been calling sporadic strikes to protest the wage issue and other elements of the Barre plan for several weeks. Workers, who are concerned about job security, have not turned out in the numbers anticipated by labor leaders. Strike participation has been greater, however, among the public-sector employees, of whom Barre now hopes to make an example.

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[redacted] Aside from their economic motivations, the two major labor federations are militantly leftist and believe that the Giscard government has shifted the burden of the austerity program and the nation's economic troubles unfairly onto the workers. These unions and the leftist politicians with whom they are in agreement plan to do what they can to emphasize these defects in the government's policies before the municipal elections in March and the legislative elections in 1978. They will not want to appear overly militant in this pre-election period, however.

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[redacted] On the other hand, the government hopes to profit with the voters by maneuvering leftist unions and politicians into activities that will alienate voters. Its efforts in this regard in the public sector are complicated somewhat because the Force Ouvriere, a moderate labor federation, is sympathetic to the leftist protests for the first time in several years. It has staked its reputation on the continuation and effectiveness of the collective bargaining process.

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[redacted] Management, too, is skeptical about the Barre plan-- which in fact is not off to a good start. Despite Barre's price controls, inflation continued unabated in October and November at an 11 percent annual rate, and the trade deficit worsened considerably. Moreover, any OPEC oil price increase promises additional problems on both the inflation and trade fronts.

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[redacted] In the face of all this, business optimism has taken an extraordinary plunge since spring. Businessmen now foresee a production downturn in the next few months and a further decline in their real investment spending in 1977.

[redacted]

POLAND: Domestic Critics

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[redacted] The Polish regime has taken the case against its more outspoken domestic critics a step further.

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[redacted] An article in the major party daily on December 13 for the first time names the Workers' Defense League as the chief anti-government group at home and abroad and attempts to undercut the League's claim to speak as a legitimate representative of the workers.

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[redacted] The party daily belittles the influence of the dissidents who belong to the League, calling them only a dozen or so individuals whom the foreign press calls "intellectuals." The article asserts that such opponents of the regime enjoy the support of only scattered students and the "naive" trust of a few Western literary figures.

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[redacted] The article appears to be a thinly veiled effort by party officials to sow discord and mistrust between the intellectual-based League and its adopted working constituency. There is no indication that party leader Gierek plans to move more decisively against the League at this time--a step that would only increase general antagonism against the regime.

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